



CHEMONICS INTERNATIONAL INC.

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Corporate and Housing Bonds Investor Education Brochure

Final Report

February 28, 2005

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Abstract

The Jordan Securities Commission (JSC) is keenly interested in introducing new financial instruments to Jordan. The report provides the text used by the JSC in preparing brochures in English and Arabic that it will be used in educating investors on the benefits and risks associated with investing in corporate bonds. The brochures will also provide the benefits and risks associated with investing in housing bonds.

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Executive Summary

The Jordan Securities Commission (JSC) is taking the lead in developing a vibrant bond market through training market intermediaries and promoting investor education. The simultaneous development of Jordan's corporate and housing bond markets will expand financing options for Jordanian businesses and Jordanians wishing to purchase homes while serving to strengthen the Jordanian economy as a whole.

Bonds provide an exceptional opportunity to gain wealth while minimizing the risk to your investment. Whether you are a first time or a seasoned investor, you have probably heard the word diversify closely linked to the word investment. Investment professionals stress the need to diversify investment holdings among stocks, bonds and cash in order to better manage your risk.

The report provides the text to be used by the JSC in preparing an investor education brochure on bonds. The brochure provides to investors the benefits and risks associated with investing in corporate bonds in Jordan. The brochure also provides to investors the benefits and risks associated with investing in housing bonds in Jordan.

Investing in corporate bonds and housing bonds: benefits and risks for the common investor

JSC Overview and Purpose

The Jordan Securities Commission (JSC) is taking the lead in developing a vibrant bond market through training market intermediaries and promoting investor education. The simultaneous development of Jordan's corporate and housing bond markets will expand financing options for Jordanian businesses and Jordanians wishing to purchase homes while serving to strengthen the Jordanian economy as a whole. The JSC's primary objectives are to protect investors and the Jordanian capital market by ensuring fairness, efficiency and transparency through regulation and investor education. Established as a legal entity in 1997 by the Securities Law number 23 and linked directly to the Prime Minister, the JSC is administratively and financially independent. The JSC oversees the Amman Stock Exchange (ASE) and the Securities Depository Center (SDC).

Investing in bonds

Bonds provide an exceptional opportunity to gain wealth while minimizing the risk to your investment. Whether you are a first time or a seasoned investor, you have probably heard the word diversify closely linked to the word investment. Investment professionals stress the need to diversify investment holdings among stocks, bonds and cash in order to better manage your risk.

What are bonds? Bonds are essentially a loan given by you to a company to help the company expand its business. When you purchase a bond, you loan a specified amount of money to the company issuing the bond. The company then promises to return your money plus interest. Bonds are referred to as fixed-income securities because if you hold the bond until maturity, you know the exact amount of money that will be paid to you.

Bond Characteristics

Face Value/Par/Principal: This is the amount of money you will receive when the bond matures.

Coupon (interest rate): The coupon or the interest rate is the amount of money you will receive as interest payments. Most bonds pay interest every six months (semi-annually), although some pay interest on a quarterly or yearly basis. If the bond pays a coupon of 5% and the face value of the bond is 1000 JD, then you will receive 50JD per year in interest payments.

Maturity: Maturity is the date on which your principal will be repaid. Maturities generally range from as few as three months to as many as thirty years. In Jordan, most maturities range from five to ten years. A general rule is the longer the maturity, the higher the interest rate.

Price: Once purchased, a bond's price changes daily based on a number of factors such as current interest rates and demand for that specific bond. Changes in price have an impact on the bond's yield.

Yield: Yield is the amount of money that will be returned to you when you sell the bond. The yield can be affected by the price. If you purchased your bond for 1000JD with a coupon of 5% then the yield is 5%. However, if the price of the bond slips to 900JD, then your yield increases to 5.5% because you are still promised \$50 on your bond which is now worth 900 JD.

Yield to Maturity: Yield to maturity (YTM) is a more comprehensive, but accurate, way of determining the true worth of your bond investment. The YTM calculates the total amount of interest you would earn on your bond if you held the bond to maturity and reinvested the interest payments you received along the way at the same rate as the current yield on your bond. See your financial advisor for help calculating the yield to maturity for your bonds.

What are corporate bonds? How do they help Jordanians?

Corporate bonds or “corporates” are debt securities issued by companies. When you purchase a corporate bond, you are loaning your money to a Jordanian business for a variety of purposes. Businesses use the money raised through corporate bonds to expand their current business, purchase equipment or acquire new facilities. Your purchase not only can help you to secure your financial future but it also helps to strengthen Jordanian businesses and the economy as a whole. Corporate bonds in Jordan are issued primarily by the financial services, insurance, public utilities, industrial corporations and services companies.

Benefits of investing in corporate bonds in Jordan:

- Dependable income on a semi-annual or quarterly basis
- Higher returns from corporates than savings accounts
- Diversification of investment portfolio
- Fairly liquid asset (i.e. easily converted to cash)
- Low risk factor compared with stocks
- Interest and profits are exempt from all taxes
- Historically strong returns
- Increased investment in Jordan
- Encouragement of increased spending by Jordanian businesses
- Strengthening of Jordanian companies and the Jordanian economy

Risks of investing in corporate bonds in Jordan:

- Potentially lower returns than stocks
- Decreased market value if interest rates rise
- Increased risk as the majority of corporate bonds are unsecured and backed solely by the company's credit and its ability to repay the interest and principal
- Potential vulnerability to decline in bond value if company increases its debt load through restructuring, mergers or recapitalization.
- Liquidity dependent upon the existence of a strong secondary bond market in Jordan

What are housing bonds? How do they help Jordanians?

Housing bonds are bonds secured by mortgage payments on properties. By purchasing a housing bond, not only are you increasing your personal wealth through quarterly or semi-annual interest payments, but you are also investing in the Jordanian housing market. Purchasing a housing bond helps to provide affordable mortgage rates and greater refinancing options to Jordanians.

Benefits of investing in housing bonds in Jordan:

- Dependable income on a quarterly, semi-annual, or yearly basis
- Higher returns from housing bonds than savings accounts
- Diversification of investment portfolio
- Interest and profits are exempt from all taxes
- Fairly liquid asset (i.e. easily converted to cash)
- Low risk factor compared with stocks
- Historically strong returns.
- Increased investment in Jordan
- Creation of more jobs in the housing sector
- Encouragement of increased spending on housing-related services

Risks of investing in housing bonds in Jordan:

- Potentially lower returns than stocks
- Decreased market value if interest rates rise
- Higher risk of default if the housing market and economic outlook are poor
- Liquidity dependent upon the existence of a strong secondary bond market in Jordan

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